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RUEHKM/AMEMBASSY KAMPALA PRIORITY 1444
RUEHLO/AMEMBASSY LONDON PRIORITY 1953
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C O N F I D E N T I A L NAIROBI 002870

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TAGS: [KDEM](#) [PREL](#) [KCOR](#) [EAID](#) [KE](#)
SUBJECT: KENYA: SCANDAL CONTROL CROWDS OUT INTEREST IN
GOVERNANCE

REF: A. NAIROBI 1614

[1](#)B. NAIROBI 2616

Classified By: Political Counselor Larry Andre for reasons 1.4 (b,d)

[1](#)1. (C) SUMMARY: With another corruption scandal emerging, this time involving private corporations whose malfeasance may have been enriching government officials, and another ministerial tirade against the media, the government has again demonstrated its aversion to transparent, democratic governance. And just when Kenyans needed them most, two of the country's most prominent civil society organizations have undergone leadership crises that threaten to reduce their effectiveness as watchdogs in the public interest. Distracted and dysfunctional, the Kibaki government has little energy to expend on addressing issues of importance to the U.S., a situation unlikely to improve as the 2007 elections approach. END SUMMARY.

CHARTERHOUSE HEATS UP

[1](#)2. (C) What promises to be the next mega-corruption scandal cracked open further on June 23, when Shadow Finance Minister Billow Kerrow tabled in Parliament a Central Bank of Kenya (CBK) investigative report detailing a massive tax evasion and money laundering scheme perpetrated by Charterhouse Bank and Nakumatt Holdings. This scandal, which may involve up to 18 billion Kenyan shillings (US\$254 million), was first investigated in 2004, but only came into the public eye in March of this year. Minister of Finance Amos Kimunya ordered CBK to shut Charterhouse down and freeze all accounts on June 24, stating in the press that it was not because of any wrongdoing on Charterhouse's part, but because of the "unnecessary panic" caused by the report's release. He also said that he has ordered a follow-up investigation of Charterhouse, the results of which will be available "next week." In the opinion of John Wanyela, the executive director of Kenya's largest banking trade union, however, there is no panic within the banking community whatsoever. He further speculated as to why Kimunya might have waited so long to act, saying that it has been common knowledge in the banking community for over two years that Charterhouse was involved in shady dealings. He said that "the marketplace" is saying there can only be two reasons for Kimunya's inaction: pressure from powerful figures associated with Nakumatt and Charterhouse (ref A), or, that money from Charterhouse is being funneled into the Kibaki administration war chest for the 2007 election. Or perhaps both.

MICHUKI STILL RATTLED

¶3. (SBU) The Charterhouse scandal developments come while the government is still groping its way around the "Armenians" saga (ref B) and allegations of the Artur brothers' connection to high-level government officials. Internal Security Minister John Michuki's latest strategy was to take out an ad and write the story himself. Michuki's full-page paid advertisement on June 25 slammed the media for "blowing out of all proportion" every government misstep. Michuki accused media houses of serving as "mouthpieces for not-so-well-meaning partisan interests," and continued on to finger The Standard as "the worst offender." The Minister highlighted two recent Standard editorials which suggested that the Internal Security Minister had lied to protect the "Armenians." Michuki's treatise followed a June 20 government statement decrying "wild allegations and...preposterous speculations," with respect to the Arturs. In that announcement Spokesman Alfred Mutua instructed media members not to take parts of his statement out of context, further fueling the rumors, but instead to "use full sentences."

PARLIAMENTARY OVERSIGHT PREVAILS

¶4. (SBU) If there is a bright spot in the "Armenians" saga it is that members of Parliament will be able to conduct their own inquiry, albeit a limited one, into why the Artur brothers were in Kenya and who their political connections are. Arguing that the Presidentially appointed Commission of Inquiry (ref B) could not impartially probe the case, MPs asserted that a joint Legal Affairs and National Security

Committee in Parliament should have that authority. Minister for Justice and Constitutional Affairs Martha Karua, however, countered that the committee did not have authority over a matter already before a special commission. Deciding against Minister Karua, Speaker Francis Kaparo on June 27 ruled in favor of the MPs, with the restriction that they could only question cabinet ministers and public officials (to the disappointment of the press and the politicians who looked forward to the public questioning of the unofficial second wife of President Kibaki, who has been linked to the strange duo).

SETBACK FOR CIVIL SOCIETY

¶5. (C) While legislative oversight of the executive may have won a victory, civil society's battle against corruption suffered a setback on June 23. Transparency International's Kenya branch announced it had fired Executive Director Mwalimu Mati for irregularities in the awarding of contracts, while Mati alleged conflicts of interest within TI's Board. TI-Kenya is supported by a donor group comprised of USAID, the U.K., Finland, and the Netherlands. After two meetings with the Board and Mati, the donor group is planning to send a letter to TI-Kenya suggesting an external audit with December 1, 2006 as the deadline for review of continued funding. In a separate blow to civil society, prominent NGO Kenya Human Rights Commission's (KHRC) outspoken young Executive Director Jennifer Miano resigned at the end of May. Her interim replacement was most recently hand-picked by President Kibaki to serve on the latest Panel of Eminent Persons reviewing the constitutional review process.

COMMENT: DYSFUNCTION AND DISTRACTION AT WHAT PRICE?

¶6. (C) COMMENT: Despite a series of scandals which have rocked the Kibaki administration, transparent governance still seems to elude some in its senior-most ranks. Kimunya's actions, or lack thereof, regarding the burgeoning Charterhouse scandal are not the kind of decisive, swift, and transparent action against corruption the government needs to

win back the public's confidence in its integrity. Rather, they are more of the same delay and obfuscation that have become so characteristic of the Kibaki administration. The events of the past week - mushrooming corruption, swipes at the media, and a credibility crisis for one of the country's most important anti-corruption watchdogs - are disappointing indicators of the government's level of commitment to, and perhaps even its understanding of, transparency and good governance. The unsettling bottom line is that the government's distractions - squashing scandals, personal enrichment, and sparring with the media - leave the real business of governing utterly neglected. The resulting dysfunction leaves little room for government of Kenya attention to matters of interest to the U.S., a trend that is only likely to worsen as the 2007 general elections approach.

END COMMENT.

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